

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION  
Telecommunications Branch

RESOLUTION NO. T-13030  
November 23, 1988

R E S O L U T I O N

Pacific Bell. Order authorizing rescription of straight-line remaining life depreciation rates for all telephone plant. The rescribed rates will be effective January 1, 1989.

SUMMARY

Pacific Bell (Pacific) filed for 1988 rescription of depreciation rates for all telephone plant accounts in December 1987 with the California Public Utilities Commission (CPUC). In the depreciation review process, Pacific and Division of Ratepayer Advocates staff (DRA) reached an agreement on the appropriate depreciation rates and methods. This resolution authorizes the rescribed depreciation rates as shown in Table A, effective January 1, 1989. This resolution also incorporates the elimination of Equal Life Group (ELG) methodology, changes in amortization levels and supplemental accruals authorized in today's decision on the joint petition to modify D. 85-08-047[1] and to discontinue use of ELG Depreciation methodology filed by DRA and Pacific.

The estimated effect of the rescribed rates and adjustments resulting from elimination of ELG, as authorized in today's

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[1] Decision 85-08-047 dealt with Pacific Bell's 1985 rescribed depreciation rates and also established the use of Equal Life Group depreciation methodology for certain categories of telephone plant for Pacific Bell.

decision, is a reduction in depreciation accruals of \$51,752,000. This amount is based on an estimated \$19.8 billion telephone plant investment, which has not been reviewed or adopted as reasonable for ratemaking by this Commission.

No protests or comments were received during the public notice of the results of the depreciation review.

#### BACKGROUND

On December 18, 1987, Pacific filed with the CPUC for represcription [2] of straight-line, remaining life depreciation rates for all telephone plant accounts. Pacific filed a similar request with the Federal Communications Commission (FCC) on December 7, 1987. The filing was supported by an analytical study which was reviewed by both the DRA and the FCC staff. A three-way meeting between Pacific staff, FCC staff and DRA was held on February 10 and 11, 1988. The represcribed depreciation rates adopted for interstate use by the FCC differ slightly from those proposed by DRA for intrastate use. In the represcription process, projected useful lives, retirements patterns, and future net salvage were examined for all accounts. The proposed represcribed depreciation rates are shown in Table A. These rates will be effective January 1, 1989.

As part of the represcription review DRA proposed elimination of ELG methods and a return to Vintage Group (VG) methods[3] for three plant categories: COE-Electronic, Circuit-Other, and Operator System-Other. Pacific agreed to the elimination of ELG and the compensating adjustment to depreciation accruals. A joint petition of DRA and Pacific to modify D. 85-08-047 and to discontinue the use of Equal Life Group depreciation methodology was filed on October 6, 1988. Today's decision on the joint petition authorizes the elimination of ELG methodology, reduces the amortization levels for Step-by-Step and Cross-Bar categories

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[2] Represcription of depreciation rates includes review of depreciation rates to reflect changes in service life, future net salvage and retirement patterns due to technological changes and growth of telephone plant.

[3] Equal Life Group is a depreciation treatment which theoretically recovers the amount of investment over the estimated lives of the assets in an account. The Vintage Group depreciation method recovers the investment over the average remaining life of units in a category for plant.

to \$75 million (a reduction of \$122 million from the current level) and supplemental accruals of \$150 million annually to accounts formerly subject to ELG treatment (COE Electronic, Circuit-Other and Operator Service-Other).

The represcribed depreciation rates for 1988 will result in a decrease of \$51,752,000 from the current accrual level of \$1,465,861,000, based on 1988 weighted average plant of \$19,827,510,000. The investment in each plant account and/or plant mix shown in Table A was not reviewed since that issue is normally undertaken in a general rate proceeding.

Depreciation rates for Pacific were most recently revised by Resolution No. T-11098, dated January 28, 1987. This was a technical update, which included depreciation rate review reflecting changes in remaining life of the utility plant and relative growth or decline in depreciation reserve due to passage of time. Pacific requested represcription this year to reflect changes in projected useful life, future net salvage, and retirement patterns due to technological changes and growth of telephone plant.

In accordance with the procedures for the depreciation reviews adopted by the Commission on September 13, 1977, DRA notified interested parties by letter dated May 18, 1988. No protests or comments were received during the 30-day comment period.

#### Useful Life Projections

There are three categories of plant where this Commission differs from the FCC in adopting useful life projections. The FCC staff recommended a 30 year projection for the plant category of Underground Cable-Exchange compared to a 26 year life recommended by DRA. DRA's recommendation is based on its analysis that rapid change in fiber-optic technology will lead to a more rapid replacement of copper in underground cable reasonable. We believe this is reasonable and will therefore adopt the 26 year life for the Underground Cable-Exchange plant category.

In Decision No. 85-08-047, we authorized a 10.5 year projection life for the plant categories of Analog Circuit-Other and Digital Circuit-Other. For 1988, the FCC depreciation rates include projection lives of 11 and 13 years respectively for these two categories. Nevertheless DRA recommends the 10.5 year projection life, established by D. 85-08-047, be continued until the 1991 represcription review. To continue improving the reserve levels

## IT IS ORDERED that:

1. The represcribed depreciation rates for Pacific Bell shown in Table A are effective on January 1, 1989.
2. The effective date of this resolution is today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 23, 1988. The following Commissioners approved it:

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners

  
Executive Director

TABLE A

CHANGES IN ANNUAL DEPRECIATION ACCRUALS RESULTING FROM  
CHANGES IN DEPRECIATION RATES  
(10000)

ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	1/1/63 PRESENT RATES				REPRESCRIBED RATES			CHANGES IN ACCRUALS
		1-1-63	RATE	ANORT&OTH ACCRUALS		RATE	ANORT&OTH ACCRUALS		
		INVESTMENT	%	B	D=(A+B)+C	%	E	F	
		A	B	C	D=(A+B)+C	E	F	G=(A+E)+F	H=G-D
2112	MOTOR VEHICLES	229,424	6.9		15,830	10.2		23,491	7,571
2114	SPECIAL PURPOSE VEHICLES	1,500	6.9		124	4.9		63	(161)
2115	GARAGE WORK EQUIPMENT	9,540	6.9		659	10.3		983	325
2116	OTHER WORK EQUIPMENT	117,459	6.9		8,107	7.4		8,594	537
2121	BUILDINGS	1,559,054	1.7		27,334	2.0		32,160	4,824
2122	FURNITURE	214,057	4.8		10,275	5.1		10,917	642
2123.1	OFFICE SUPPORT EQUIPMENT	45,952	4.8		2,254	8.6		4,033	1,781
2123.2	COMPANY COMMON EQUIPMENT	314,534	12.1		38,059	12.7		39,945	1,897
2124	GEN PURPOSE COMPUTERS	1,024,347	16.7		171,055	12.7		130,092	(40,974)
2211	ANALOG ELECT SWITCH					5.1		159,709	(265)
	ANALOG ELECT SWITCH-VS	2,355,172	5.9		139,014				
	ANALOG ELECT SWITCH-ELS	262,015	3.0		20,951				
2212	DIGITAL ELECT SWITCH					5.2		50,955	(23,778)
	DIGITAL ELECT SWITCH-VS	282,845	6.7		18,951				
	DIGITAL ELECT SWITCH-ELS	597,591	8.3		55,315				
2215.1	STEP BY STEP 2	165,261	2	33,000	33,000	2	22,000	22,000	(11,000)
2215.2	CROSSBAR 2	455,223	2	164,000	164,000	2	53,000	53,000	(111,000)
2220.2	OPERATOR SYS-CROSSBAR	73,502	24.7		18,254	9.4		6,947	(11,307)
2220.3	OPERATOR SYS-OTHER					5.1		2,967	167
	OPERATOR SYS-OTHER-VS	11,754	7.1		835				
	OPERATOR SYS-OTHER-ELS	24,877	7.9		1,965				
2231	RADIO SYSTEMS	93,033	7.2		6,702	7.3		6,795	93
2232.11	DIGITAL DATA SYSTEMS	151,079	9.3		14,505	9.5		14,353	(153)
2232.12	DIGITAL CIRCUIT-OTHER					8.9		160,738	(37,265)
	DIGITAL CCT-OTHER-VS	1,323,701	9.6		133,315				
	DIGITAL CCT-OTHER-ELS	417,349	15.5		64,689				
2232.2	ANALOG CIRCUIT-OTHER					8.5		109,058	(23,791)
	ANALOG CCT-OTHER-VS	1,107,955	9.6		105,367				
	ANALOG CCT-OTHER-ELS	163,409	15.6		25,492				
2351	PUBLIC TEL TERM EQUIPMENT	152,671	9.4		14,351	10.5		16,183	1,832
2362	OTHER TERMINAL EQUIPMENT	209,239	20.1		42,057	15.3		32,014	(10,043)
2411	POLES	420,731	5.3		22,301	6.0		25,247	2,946
2421.1	AERIAL CABLE-EXCHANGE	1,595,305	5.0		79,765	5.5		87,742	7,977
2421.2	AERIAL CABLE-INTEROFFICE	25,192	10.7		2,696	13.4		3,376	680
2422.1	UNDERSGROUND CABLE-EXCHANGE	2,603,230	3.9		78,126	4.8		93,155	18,029
2422.2	UNDERSGROUND CABLE-INTEROFFICE	506,480	3.9		19,753	5.6		28,363	8,610
2423.1	BURIED CABLE-EXCHANGE	1,252,906	4.5		56,381	4.2		52,622	(3,759)
2423.2	BURIED CABLE-INTEROFFICE	117,854	4.7		5,539	6.4		7,543	2,004
2424	SUBMARINE CABLE	10,535	6.8		723	6.4		691	(32)
2426	INTRABUILDING NETWORK CABLE	512,024	5.0		25,601	6.3		32,253	6,657
2431	AERIAL WIRE	28,574	8.1		2,314	14.6		4,172	1,858
2441	UNDERSGROUND CONDUIT OFFSETTING ACCRUAL	1,744,521	2.2		39,379	2.4	150,000	150,000	150,000
	TOTALS	19,327,510		197,000	1,465,861		225,000	1,414,109	(51,752)

2 AMORTIZATION